Berkshire Hathaway Inc.

1970

ANNUAL REPORT TO THE STOCKHOLDERS

(52 WEEKS ENDED JANUARY 2, 1971)

Contents

Berkshire Hathaway Inc.

March 15, 1971

To the Stockholders of
Berkshire Hathaway Inc.:

The past year witnessed dramatically diverse earnings results among our various operating units. The Illinois National Bank & Trust reported record earnings and continued to rank right at the top, nationally, among banks in terms of earnings as a percentage of average resources. Our insurance operations had some deterioration in underwriting results, but increased investment income produced a continued excellent return. The textile business became progressively more difficult throughout the year and the final break-even result is understandable, considering the industry environment.

The combination of these factors produced a return of approximately 10% on average shareholder's investment. While this figure is only about average for American industry, it is considerably in excess of what would have been achieved had resources continued to be devoted exclusively to the textile business, as was the pattern until five years ago.

Textile Operations

Sales in both menswear linings and home fabrics declined significantly during the year. Thus we were continuously forced to modify production plans to prevent inventories from mounting. Such production curtailments were costly to the Company and disruptive to the lives of our employees.

Prices continue at poor levels and demand has not strengthened. Inventory levels, while reduced from a year ago through great effort, continue high in relation to current sales levels. We continue to work at making the changes required in manufacturing and marketing areas that will result in profitable operations with more stable employment.

Led by Ken Chace, the effort, attitude and enterprise manifested by management and labor in this operation have been every bit the equal of their counterparts in our much more profitable businesses. But in the past year they have been swimming against a strong tide and, at this writing, that situation still prevails.

Insurance Operations

We enjoyed an outstanding year for growth in our insurance business, accompanied by a somewhat poorer underwriting picture. Our traditional operation experienced a surge in volume as conventional auto insurance markets became more restricted. This is in line with our history as a nonconventional carrier which receives volume gains on a "wave" basis when standard markets are experiencing capacity or underwriting problems. Although our combined loss and expense ratio on the traditional business rose to approximately 100% during the year, our management, led by Jack Ringwalt and Phil Liesche, has the ability and determination to return it to an underwriting profit.

Our new reinsurance division, managed by George Young, made substantial progress during the year. While an evaluation of this division's underwriting will take some years, initial signs are encouraging. We are producing significant volume in diverse areas of reinsurance and developing a more complete staff in order to handle a much larger volume of business in the future.

The surety business, referred to in last year's report, operated at a significant underwriting loss during 1970. The contractor's bond field was a disappointment and we are restricting our writings to the miscellaneous bond area. This will mean much less volume but, hopefully, underwriting profits.

Our "home-state" operation — Cornhusker Casualty Company, formed in early 1970 as a 100% owned subsidiary of National Indemnity, writing standard business through Nebraska agents only — is off to a strong start. The combination of big-company capability and small-company accessibility is proving to be a strong marketing tool with first class agents. John Ringwalt deserves credit for translating the concept into reality. Our present plans envision extension of the home-state approach and we plan to have another company in operation later this year.

Banking Operations

Eugene Abegg had the problem in 1970 of topping a banner year in 1969 — and in the face of an unchanged level of deposits, managed to do it. While maintaining a position of above average liquidity, net operating earnings before security gains came to well over 2% of average deposits. This record reflects an exceptionally well-managed banking business.

Bob Kline became President of the Illinois National Bank in January, 1971, with Mr. Abegg continuing as Chairman and Chief Executive Officer. Illinois is a unit banking state, and deposit growth is hard to come by. In the year he has been with the bank, Mr. Kline has demonstrated effort and initiative in generating new deposits. Such deposit growth, in line with national trends, will largely be in the consumer savings area with attendant high costs. With generally lower interest rates prevailing on loans throughout the country, it will be a challenge to management to maintain earnings while utilizing a higher cost deposit mix.

In the closing days of 1970, new bank holding company legislation was passed which affects Berkshire Hathaway because of its controlling ownership of The Illinois National Bank. In effect, we have about ten years to dispose of stock in the bank (which could involve a spin-off of bank stock to our shareholders) and it will probably be some time before we decide on a course of action. In the meantime, certain activities of all entities in the Berkshire Hathaway group — including acquisitions — are subject to the provisions of the Act and Regulations of the Federal Reserve Board.

Warren E. Buffett
Chairman of the Board

Berkshire Hathaway Inc.

FINANCIAL STATEMENTS
1970
(52 Weeks Ended January 2, 1971)

ACCOUNTANTS' CERTIFICATE

PEAT, MARWICK, MITCHELL & CO.
CERTIFIED PUBLIC ACCOUNTANTS
10 DORRANCE STREET
PROVIDENCE, RHODE ISLAND 02903

The Board of Directors and Stockholders
Berkshire Hathaway Inc.:

We have examined the consolidated balance sheet of Berkshire Hathaway Inc. and its subsidiary as of January 2, 1971 and the related statements of earnings, retained earnings and source and application of funds for the 52 weeks then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the above mentioned financial statements present fairly the financial position of Berkshire Hathaway Inc. and its subsidiary at January 2, 1971 and the results of their operations and source and application of funds for the 52 weeks then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding period.

Peat Marwick Mitchell & Co.

February 12, 1971 (except for the
insurance subsidiaries, as to
which the date is March 2, 1971)

Berkshire Hathaway Inc.

CONSOLIDATED STATEMENT OF EARNINGS

52 weeks ended January 2, 1971

with comparative figures for the 53 weeks ended January 3, 1970

	52 weeks ended January 2, 1971			
	Revenues (expenses) before Federal income taxes		*Tax effect of Federal income taxes (expense) benefit (See Note 5)*	*Net earnings*
Textile operations				
Net sales	$24,568,567			
Cost of sales, administrative and selling expense	(24,461,279)			
Earnings from textile operations		$ 107,288	(62,541)	44,747
Interest and dividends				
Interest and dividend income	60,285			
Interest (expense)	(580,835)			
Net interest expense		(520,550)	144,910	(375,640)
Corporate administrative costs		(63,443)	17,557	(45,886)
Equity in earnings (excluding realized investment (losses) gains) of unconsolidated subsidiaries				
Insurance subsidiaries		2,638,710	(586,837)	2,051,873
Banking subsidiary		2,643,039	(28,915)	2,614,124
Earnings before investment gains (losses) and extraordinary item		4,805,044	(515,826)	4,289,218
Investment gains (losses)				
Parent company		—	—	—
Insurance subsidiaries		(301,047)	—	(301,047)
Banking subsidiary		358,819	—	358,819
Net investment gains		57,772	—	57,772
Earnings before extraordinary item		4,862,816	(515,826)	4,346,990
Extraordinary item — gain (loss) on liquidation or retirement of textile properties		281,839	(63,351)	218,488
Net earnings		$ 5,144,655	(579,177)	4,565,478
Net earnings per share of outstanding common stock				
Earnings before investment gains (losses) and extraordinary item				$4.38
Investment gains				.06
Extraordinary item				.22
Net earnings				$4.66

See accompanying notes to consolidated financial statements.

	53 weeks ended January 3, 1970			
	Revenues (expenses) before Federal income taxes		*Tax effect of Federal income taxes (expense) benefit*	*Net earnings*
Textile operations				
Net sales	$40,427,037			
Cost of sales, administrative and selling expense	(38,971,802)			
Earnings from textile operations		$ 1,455,235	(667,000)	788,235
Interest and dividends				
Interest and dividend income	96,449			
Interest (expense)	(643,443)			
Net interest expense		(546,994)	296,393	(250,601)
Corporate administrative costs		(6,307)	3,154	(3,153)
Equity in earnings (excluding realized investment (losses) gains) of unconsolidated subsidiaries				
Insurance subsidiaries		2,774,186	(495,957)	2,278,229
Banking subsidiary		2,364,306	(827,500)	1,536,806
Earnings before investment gains (losses) and extraordinary item		6,040,426	(1,690,910)	4,349,516
Investment gains (losses)				
Parent company		5,333,488	(1,525,736)	3,807,752
Insurance subsidiaries		388,622	(106,871)	281,751
Banking subsidiary		(781,758)	409,963	(371,795)
Net investment gains		4,940,352	(1,222,644)	3,717,708
Earnings before extraordinary item		10,980,778	(2,913,554)	8,067,224
Extraordinary item — gain (loss) on liquidation or retirement of textile properties		(228,788)	114,353	(114,435)
Net earnings		10,751,990	(2,799,201)	7,952,789
Net earnings per share of outstanding common stock				
Earnings before investment gains (losses) and extraordinary item				$4.41
Investment gains				3.78
Extraordinary item				(.12)
Net earnings				$8.07

Berkshire Hathaway Inc.

CONSOLIDATED BALANCE SHEET

January 2, 1971

with comparative figures at January 3, 1970

	Jan. 2, 1971	*Jan. 3, 1970*
ASSETS		
Current assets:		
Cash	$ 1,351,567	$ 1,792,835
Marketable securities, at cost	—	294,165
Accounts receivable (less allowance for doubtful accounts — January 2, 1971 — $215,191; January 3, 1970 — $189,026)	3,916,332	6,397,021
Inventories, at the lower of cost (first-in, first-out) or market (note 3)	8,471,798	9,269,578
Prepaid and deferred charges	200,341	344,725
Total current assets	13,940,038	18,098,324
Property, plant and equipment (note 4):		
Property comprising land, buildings, machinery and equipment	14,919,300	15,747,970
Less accumulated depreciation and amortization	12,425,525	12,734,126
Net property, plant and equipment	2,493,775	3,013,844
Investment in unconsolidated subsidiaries (notes 1 and 2):		
Bank subsidiary	19,877,908	18,868,404
Insurance subsidiaries	19,064,663	15,314,965
Other subsidiaries	1,261,000	1,261,000
Total investment in unconsolidated subsidiaries	40,203,571	35,444,369
	$56,637,384	$56,556,537
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current installments of long-term debt	$ 1,500,000	$ 1,500,000
Accounts payable and accrued expenses	2,014,843	3,804,322
Accrued Federal, State, and local taxes	247,908	1,442,855
Total current liabilities	3,762,751	6,747,177
Long-term debt, excluding current installments:		
Note payable to banks (note 7)	3,750,000	5,250,000
7½% subordinated debentures (note 8)	641,300	641,300
Total long-term debt	4,391,300	5,891,300
Stockholders' equity:		
Common stock, $5 par value. Authorized 1,722,983 shares; issued 1,017,547 shares	5,087,735	5,087,735
Retained earnings	44,212,973	39,647,495
	49,300,708	44,735,230
Less 37,970 shares (January 3, 1970 — 37,965) of common stock in treasury, at cost	817,375	817,170
Total stockholders' equity	48,483,333	43,918,060
	$56,637,384	$56,556,537

See accompanying notes to consolidated financial statements.

Berkshire Hathaway Inc.

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

52 weeks ended January 2, 1971

with comparative figures for the 53 weeks ended January 3, 1970

	Jan. 2, 1971	*Jan. 3, 1970*
Retained earnings, beginning	$39,647,495	$31,694,706
Net earnings	4,565,478	7,952,789
Retained earnings, ending	$44,212,973	$39,647,495

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

52 weeks ended January 2, 1971

with comparative figures for the 53 weeks ended January 3, 1970

	52 weeks ended Jan. 2, 1971	*53 weeks ended Jan. 3, 1970*
Funds provided:		
Net earnings	$ 4,565,478	$ 7,952,789
Nonfund items:		
Add depreciation and amortization	520,235	643,143
(Deduct gain) Add — loss on liquidation or retirement of textile properties	(281,839)	228,788
Deduct equity in undistributed earnings of unconsolidated subsidiaries	(2,769,929)	(2,649,829)
Total nonfund items	(2,531,533)	(1,777,898)
Funds derived from operations	2,033,945	6,174,891
Long-term debt financing	—	6,000,000
Proceeds from sale of textile properties	532,477	240,865
Decrease in working capital	1,173,860	8,877,815
	$ 3,740,282	$21,293,571
Funds used:		
Investment in unconsolidated subsidiaries	1,989,271	20,039,555
Repayment of long-term debt	1,500,000	750,000
Additions to property and equipment	250,806	264,016
Purchase of treasury stock	205	240,000
	$ 3,740,282	$21,293,571

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

January 2, 1971

(1) Principles of Consolidation:

The accompanying financial statements consolidate the accounts of Berkshire Hathaway Inc. with its wholly-owned Canadian subsidiary. The accounts of insurance subsidiaries, substantially 100% owned by Berkshire Hathaway, and the accounts of the Illinois National Bank and Trust Co. of Rockford and subsidiaries, approximately 98% of which was acquired by Berkshire Hathaway in March 1969, are not consolidated. The accompanying statement of earnings reflects, based on current certified audit reports of these companies, the equity of Berkshire Hathaway Inc. in earnings of these functionally independent operations. The investments in these subsidiaries are carried at cost plus the equity in undistributed earnings since acquisition. Three immaterial subsidiaries (an insurance agency, a printing and a publishing operation) have not been consolidated, and the investments therein are carried at cost.

(2) Investment in Unconsolidated Subsidiaries

The carrying value of $40,203,571 for all unconsolidated subsidiaries at January 2, 1971 was approximately $2,124,000 in excess of the Company's equity in book values reflected in the accounts of the subsidiaries. No part of this excess has been allocated between tangible and intangible assets as the effect on income of such allocation would not be material and the excess is not being amortized as management believes its value is not declining.

Detailed financial statements of the two insurance subsidiaries and the bank subsidiary are presented elsewhere in this report.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, *Continued*

(3) Inventories:

A comparative summary follows:

	Jan. 2, 1971	Jan. 3, 1970
Raw materials and supplies	$ 543,660	$ 1,168,967
Stock in process	1,425,216	1,798,224
Cloth	6,502,922	6,302,387
	$ 8,471,798	$ 9,269,578

(4) Property, Plant and Equipment:

The Company's general policy is to provide for depreciation over the estimated useful lives as allowed by taxing authorities. Except for new additions subsequent to 1965 which are depreciated on the double-declining balance method, depreciation is provided on the straight-line basis. The composition of property, plant and equipment is shown below:

	Jan. 2, 1971	Jan. 3, 1970
Land	$ 87,116	$ 106,555
Buildings	2,345,977	3,726,310
Machinery and equipment	11,891,239	11,402,218
Furniture and fixtures and leasehold improvements	594,968	512,887
	14,919,300	15,747,970
Less accumulated depreciation and amortization	12,425,525	12,734,126
	$ 2,493,775	$ 3,013,844

Depreciation expense recorded in 1970 was $520,235 ($643,143 in 1969).

(5) Income Taxes:

The Company and all of its subsidiaries eligible for inclusion in a consolidated Federal income tax return joined in the filing of such a consolidated return for both 1970 and 1969.

For 1970, the consolidation for U. S. tax purposes resulted in a reporting of a U. S. net consolidated operating loss. The result of filing a consolidated return was to offset ordinary tax losses of the Parent and insurance subsidiaries against ordinary taxable income of the bank subsidiary and to offset capital losses of the insurance subsidiaries against capital gains of the Parent and bank subsidiary. For this reason, the tax effects in 1970 are not proportionate to the pretax income items reflected in the statement of earnings.

The total income tax expense for 1970 of $579,177 consists of the following:

Parent company's recoverable income taxes arising from carryback of its share of consolidated net operating loss reportable for U. S. Federal tax purposes		$115,000
Current foreign income tax expense of consolidated Canadian subsidiary		(78,425)
Net recoverable taxes of Parent and consolidated subsidiary		36,575
Equity in tax benefit (expense) of subsidiaries not consolidated in these statements:		
Deferred tax expense	($871,850)	
Recoverable income taxes arising from carryback by insurance subsidiaries of their share of consolidated net operating loss reportable for U. S. Federal tax purposes	256,098	
Equity in net tax (expense) of subsidiaries not consolidated in these statements		(615,752)
Net income tax (expense)		($579,177)

The deferred taxes of subsidiaries not consolidated relate primarily to the increased equity of insurance subsidiaries in unearned premiums, which increased equity is not currently includable in Federal taxable income.

(6) Pension Plan:

The Company has a noncontributory pension plan for salaried employees. Benefits are funded through the medium of an independently trusteed fund, the assets of which exceed the actuarially computed vested and nonvested benefits. The current year's pension expense was $26,000 and represents normal costs less amortization of the overfunded position at August 1, 1968 on a ten-year basis.

(7) Long-term Debt:

Under the terms of a loan agreement, the Company was liable to certain banks at January 2, 1971 for $5,250,000, of which $1,500,000 is due within one year. Interest, payable quarterly in arrears, is computed at ½% over the prime rate for 90-day commercial loans of The First National Bank of Boston, which serves as the agent bank. Principal is payable quarterly in the amount of $375,000 with a final installment of $3,375,000 due on June 30, 1972.

The agreement contains provisions, among others, that: the banks may at any time require the debt to become secured; the Company will maintain working capital of at least $8,000,000; net worth shall be at least $35,000,000; and each subsidiary will maintain net worth at least as follows:

National Fire & Marine Insurance Co.	$ 1,300,000
National Indemnity Company	8,000,000
Illinois National Bank & Trust Co.	11,500,000

The agreement also limits the Company's ability, without consent of the banks, to dispose of any substantial portion of its assets; to incur additional indebtedness for borrowed money; or enter into business combinations. Additionally, the agreement contains restrictions regarding the issuance by subsidiaries of additional shares of their capital stock, options therefore or securities convertible thereto.

(8) 7½% Subordinated Debentures:

Debentures bear interest at the rate of 7½%, payable February 1 and August 1, and will be due on August 1, 1987. The debentures are not secured by any lien and are not convertible; they are subordinated to senior indebtedness which includes indebtedness of the Company for money borrowed. The debentures may, at the Company's option, be redeemed at 105% through July 31, 1973 and thereafter at 100%. The indenture under which the debentures are issued requires the Company to provide for the retirement by redemption, through a sinking fund, on August 1 in each of the years 1973 to and including 1986, of one-fifteenth of the total amount of debentures issued. Redemption through the sinking fund shall be at principal amount plus accrued interest.

(9) "One-Bank Holding Company" Status:

Because of its controlling ownership of the Illinois National Bank & Trust Co. of Rockford, the Company is a "one-bank holding company" and as a result of recently enacted Federal legislation is required prior to January 1, 1981 to divest itself either of its controlling interest in the bank or its activities unrelated to banking. So long as the Company controls the bank, it is subject to the restrictions on its activities imposed by this legislation.

National Indemnity Company

(Subsidiary of Berkshire Hathaway Inc.)

FINANCIAL STATEMENTS
1970

ACCOUNTANTS' CERTIFICATE

PEAT, MARWICK, MITCHELL & CO.
CERTIFIED PUBLIC ACCOUNTANTS
KIEWIT PLAZA
OMAHA, NEBRASKA 68131

The Board of Directors
National Indemnity Company:

We have examined the consolidated statutory statement of assets and liabilities of National Indemnity Company and its wholly-owned subsidiary, Cornhusker Casualty Company, as of December 31, 1970 and the related statements of consolidated income and consolidated paid-in and unassigned surplus for the year then ended. We have also examined the supplemental statements of consolidated adjusted income and consolidated stockholders' equity. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, such financial statements present fairly the consolidated statutory financial position of National Indemnity Company and its wholly-owned subsidiary, Cornhusker Casualty Company, at December 31, 1970 and the consolidated income and changes in consolidated paid-in and unassigned surplus for the year then ended, in conformity with insurance accounting principles prescribed or permitted under statutory authority applied on a basis consistent with that of the preceding year. These principles vary in some respects from generally accepted accounting principles, as explained in note 1 to the consolidated financial statements. Also, in our opinion, the supplemental consolidated statements of adjusted income and stockholders' equity present fairly net income for the year ended December 31, 1970 and the consolidated stockholders' equity at that date in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Peat, Marwick, Mitchell & Co.

March 2, 1971

National Indemnity Company

(Subsidiary of Berkshire Hathaway Inc.)

AND ITS WHOLLY-OWNED SUBSIDIARY, CORNHUSKER CASUALTY COMPANY

CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES

December 31, 1970
with comparative figures for 1969

ASSETS

	1970	*1969*
Bonds, at admitted value (note 3)	$45,993,194	$27,894,117
Stocks, at market value (note 3):		
Preferred (cost, 1970, $757,624; 1969, $1,460,700)	793,331	1,393,190
Common (cost, 1970, $8,310,595; 1969, $7,649,755)	8,737,469	7,376,925
	9,530,800	8,770,115
Real estate, at cost less allowance for depreciation of $264,401 (1969, $228,606) (note 4)	986,490	1,005,061
Cash and bank deposits	655,457	686,818
Agents' balances and premiums in course of collection less ceded reinsurance balances payable of $441,786 (1969, $87,581)	2,980,103	3,513,854
Reinsurance recoverable on loss payments	207,103	533,531
Investment income due and accrued	800,649	470,174
Amounts due from sale of securities	98,350	655,430
Federal income taxes recoverable (note 7)	250,319	297,500
Other	45,454	62,180
	$61,547,919	$43,888,780

LIABILITIES, CAPITAL STOCK AND SURPLUS

Losses and loss adjustment expenses (note 6)	$26,161,437	$19,079,307
Unearned premiums (note 5)	15,488,334	10,091,999
Funds held under reinsurance treaties	1,042,588	776,791
Contingent commissions	331,728	417,000
Other expenses	127,814	87,512
Taxes, licenses and fees	769,753	553,266
Agents' and policyholders' deposits	940,979	473,178
Statutory reserve for bodily injury and compensation losses	5,554	97,707
Amounts due for purchase of securities	1,782,560	856,052
Mortgage and contract payable on rental property	19,014	28,182
Other liabilities	9,809	13,392
	46,679,570	32,474,386
Capital stock and surplus:		
Common stock of $10 par value per share. Authorized 250,000 shares; issued 250,000 shares, 1970; 200,000 shares, 1969 (note 8)	2,500,000	2,000,000
Paid-in surplus	1,801,250	301,250
Unassigned surplus	10,567,099	9,113,144
	14,868,349	11,414,394
	$61,547,919	$43,888,780

See accompanying notes to consolidated financial statements.

National Indemnity Company

(Subsidiary of Berkshire Hathaway Inc.)

AND ITS WHOLLY-OWNED SUBSIDIARY, CORNHUSKER CASUALTY COMPANY

CONSOLIDATED STATEMENT OF INCOME

Year ended December 31, 1970
with comparative figures for 1969

	1970	*1969*
Underwriting income:		
Net premiums written	$39,390,688	$24,824,366
Less increase in unearned premiums	5,396,335	3,274,997
Premiums earned	33,994,353	21,549,369
Losses and loss expenses incurred	23,461,917	13,933,982
	10,532,436	7,615,387
Underwriting expenses:		
Commissions and brokerage	9,258,373	5,750,605
Salaries and other compensation	1,106,419	765,067
Taxes, licenses and fees	873,688	669,872
Other underwriting expenses	1,199,297	559,201
	12,437,777	7,744,745
Net underwriting loss	1,905,341	129,358
Investment income:		
Interest on bonds	2,047,319	1,421,542
Dividends on stock	458,323	350,386
Real estate income	195,233	198,966
	2,700,875	1,970,894
Investment expenses	199,057	183,892
	2,501,818	1,787,002
Profit from underwriting and investments	596,477	1,657,644
Other income (expenses)	98	(18,552)
Income before Federal income taxes and realized gain or loss on investments	596,575	1,639,092
Federal income taxes (credit) (note 7)	(270,647)	20,809
Income before realized gain or loss on investments	867,222	1,618,283
Realized gain (loss) on investments	(211,074)	297,058
Less Federal income taxes on gain	—	81,691
	(211,074)	215,367
Net income	$ 656,148	$ 1,833,650
Depreciation	$ 67,173	$ 61,730

See accompanying notes to consolidated financial statements.

National Indemnity Company

(Subsidiary of Berkshire Hathaway Inc.)

AND ITS WHOLLY-OWNED SUBSIDIARY, CORNHUSKER CASUALTY COMPANY

CONSOLIDATED STATEMENTS OF PAID-IN AND UNASSIGNED SURPLUS

Year ended December 31, 1970
with comparative figures for 1969

	1970	*1969*
PAID-IN SURPLUS		
Beginning of year	$ 301,250	$ 301,250
Excess of proceeds over par value of capital stock issued (note 8)	1,500,000	—
End of year	$ 1,801,250	$ 301,250
UNASSIGNED SURPLUS		
Beginning of year	9,113,144	9,207,670
Net income	656,148	1,833,650
Increase (decrease) in net unrealized appreciation of investments	735,837	(2,150,741)
Decrease in liability for unauthorized reinsurance	11,493	31,640
Decrease in excess of bodily injury liability and compensation statutory and voluntary reserves over case basis and loss expense reserves (Schedule "P" reserves)	92,153	246,371
Increase in nonadmitted assets	(41,676)	(55,446)
End of year	$10,567,099	$ 9,113,144

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF ADJUSTED INCOME

Year ended December 31, 1970
with comparative figures for 1969

	1970	*1969*
Net income as shown in the accompanying statement of income — statutory basis	$ 656,148	$ 1,833,650
Adjustments to net income:		
Net realized (gain) loss on investments (to segregate from adjusted net earnings)	211,073	(297,058)
Federal income taxes applicable to net realized gain	—	81,691
Increase in estimated equity in unearned premiums	1,492,628	821,120
Increase in future income taxes applicable to change in estimated equity in unearned premiums	(631,451)	(423,551)
	1,072,250	182,202
Net income as adjusted excluding investment gains	$ 1,728,398	$ 2,015,852
Investment gains:		
Net realized gains (loss)	(211,073)	297,058
Less applicable income taxes	—	81,691
	(211,073)	215,367
Increase (decrease) in net unrealized gains	1,399,123	(2,730,100)
Less allowance for future income taxes (credit)	132,760	(455,510)
	1,266,363	(2,274,590)
Net investment gain (loss)	$ 1,055,290	$ (2,059,223)

See accompanying notes to consolidated financial statements.

National Indemnity Company

(Subsidiary of Berkshire Hathaway Inc.)

AND ITS WHOLLY-OWNED SUBSIDIARY, CORNHUSKER CASUALTY COMPANY

CONSOLIDATED STATEMENT OF ADJUSTED STOCKHOLDERS' EQUITY

December 31, 1970

with comparative figures for 1969

	1970	1969
Capital shares and surplus as shown in the accompanying statement of assets and liabilities — statutory basis	$14,868,349	$11,414,394
Adjustments to capital shares and surplus:		
Equity in unearned premium reserve	4,358,848	2,866,220
Statement value of bonds over market value		(663,284)
Reserve for reinsurance with unauthorized companies	1,690	13,183
Excess bodily injury liability and compensation statutory reserves over case basis	5,554	97,707
Nonadmitted assets (note 2)	262,685	221,008
	4,628,777	2,534,834
Adjusted equity before income taxes applicable to equity in unearned premiums and unrealized appreciation on investments	19,497,126	13,949,228
Less Federal income taxes applicable to estimated equity in unearned premiums and unrealized appreciation on investments	2,207,437	1,443,227
Adjusted stockholders' equity	$17,289,689	$12,506,001

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1970

(1) Basis of Presentation:

The accompanying financial statements have been prepared, except as to form, on the basis of the requirements for reporting in the annual statements filed with the Insurance Departments of the respective domiciliary states. The Federal income tax credit included in the accompanying financial statements had not been computed at the time the annual statement was filed and was not included therein.

The financial statements have been prepared in conformity with insurance accounting principles prescribed or permitted under statutory authority which differ in some respects from generally accepted accounting principles followed by other business enterprises in determining financial position and results of operations. Pursuant to such practices (a) investment securities are carried in accordance with valuations established by the National Association of Insurance Commissioners, i.e. eligible bonds are carried at cost adjusted, where appropriate, for amortization of premium or discount, and other bonds and stocks are carried at market values with no provision for income taxes relative to unrealized appreciation in such investments; (b) premium income is taken into earnings on a pro rata basis over the periods covered by the policies, whereas related acquisition and commission costs are charged when incurred; (c) statutory loss reserves are required on certain lines of insurance in excess of losses computed on a case basis; (d) assets are included in the statement of assets and liabilities at "admitted asset value" and "nonadmitted assets" are excluded (see note 2); and (e) a provision is made for unearned premiums and losses recoverable, in excess of funds held, on business reinsured with companies not qualified by license. The effects of such differences is shown in the accompanying supplemental statements of adjusted stockholders' equity and adjusted net income.

During 1970 National Indemnity Company formed a subsidiary insurance company, Cornhusker Casualty Company. National Indemnity owns 100% of the outstanding stock of Cornhusker Casualty Company and the two companies have been consolidated in this report with significant intercompany transactions and balances eliminated.

(2) Nonadmitted Assets:

The assets in the accompanying statement of assets and liabilities are stated at admitted asset value. The term "admitted assets" means the values at which they are permitted to be reported in the annual statement filed with the state regulatory authority. The term "nonadmitted assets" means assets other than assets which are so permitted.

Assets which have been excluded from the statement of assets and liabilities at December 31, 1970 are as follows:

Agents' balances and uncollected premiums	$ 52,900
Equipment and furniture	204,745
Other	5,039
	$262,684

(3) Bonds and Stocks:

Bonds and stocks are carried in accordance with valuations established by the National Association of Insurance Commissioners (see note 1). The "admitted value" of bonds on deposit with regulatory authorities at December 31, 1970 was $2,235,178.

National Indemnity Company

(Subsidiary of Berkshire Hathaway Inc.)

AND ITS WHOLLY-OWNED SUBSIDIARY, CORNHUSKER CASUALTY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, *Continued*

The change in each year in the valuation between investments at book value and investments as valued in the annual statement is carried to surplus as unrealized gain or loss from investments.

(4) Real Estate:

Real estate consists of the home office building and related real estate owned by National Indemnity Company and is included in the statement of assets and liabilities at cost less accumulated depreciation. Provision for depreciation of real estate is based upon the estimated useful life of the building and is computed under the straight-line method.

(5) Unearned Premiums:

Unearned premiums are computed on the monthly pro rata basis and include provisions for refunds under retrospectively rated policies and are stated after deduction on account of reinsurance placed with other insurers in the amount of $3,666,374 at December 31, 1970.

(6) Unpaid Losses and Loss Expenses:

The net reserve for unpaid losses and loss expenses is after the deduction of amounts for reinsurance placed with other insurers in the amount of $2,791,815 at December 31, 1970.

(7) Federal Income Taxes:

The companies intend to file a consolidated Federal income tax return with Berkshire Hathaway, Inc. for the year ended December 31, 1970. Federal income tax recoverable included in the statement of assets and liabilities is computed on the amount of loss not used in the consolidated return and therefore available for carryback against prior year payments.

Federal income tax returns have been examined through 1966 by the Internal Revenue Service and adjustments have been proposed. The company has filed a protest and management believes that the final determination will result in a refund due to the company.

(8) Capital Stock:

During 1970 the stockholders purchased an additional 50,000 shares of common stock at a cost of $40 per share.

National Fire & Marine Insurance Company

(Subsidiary of Berkshire Hathaway Inc.)

FINANCIAL STATEMENTS
1970

ACCOUNTANTS' CERTIFICATE

PEAT, MARWICK, MITCHELL & CO.
CERTIFIED PUBLIC ACCOUNTANTS
KIEWIT PLAZA
OMAHA, NEBRASKA 68131

The Board of Directors
National Fire & Marine Insurance Company:

We have examined the statutory statement of assets and liabilities of National Fire & Marine Insurance Company as of December 31, 1970 and the related statements of income and paid-in and unassigned surplus for the year then ended. We have also examined the supplemental statements of adjusted income and stockholder's equity. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, such financial statements present fairly the statutory financial position of National Fire & Marine Insurance Company at December 31, 1970 and the income and changes in paid-in and unassigned surplus for the year then ended, in conformity with insurance accounting principles prescribed or permitted under statutory authority on a basis consistent with that of the preceding year. These principles vary in some respects from generally accepted accounting principles, as explained in note 1 to the financial statements. Also, in our opinion, the supplemental statements of adjusted income and stockholder's equity present fairly net income for the year ended December 31, 1970 and the stockholder's equity at that date in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Peat, Marwick, Mitchell & Co.

March 2, 1971

National Fire & Marine Insurance Company

(Subsidiary of Berkshire Hathaway Inc.)

STATEMENT OF ASSETS AND LIABILITIES

December 31, 1970
with comparative figures for 1969

ASSETS

	1970	1969
Bonds, at admitted value (note 2)	$5,616,100	$3,940,926
Stocks, at market value (note 2):		
Preferred (cost, 1970, $228,313; 1969, $270,003)	247,734	253,583
Common (cost, 1970, $1,543,752; 1969, $1,326,984)	1,516,841	1,229,678
	1,764,575	1,483,261
Cash and bank deposits	157,017	101,114
Agents' balances and premiums in course of collection, less ceded reinsurance balances payable of $89,283, 1970; $60,868, 1969	1,091,924	737,856
Reinsurance recoverable on loss payments	97,297	73,537
Investment income due and accrued	97,574	74,177
Amounts due from sales of securities		87,683
Federal income taxes recoverable (note 5)	8,160	23,242
Other	5,490	1,445
	$8,838,137	$6,523,241

LIABILITIES, CAPITAL STOCK AND SURPLUS

	1970	1969
Unearned premiums (note 3)	$1,994,623	$1,477,375
Losses and loss adjustment expenses (note 4)	3,597,302	2,369,259
Funds held under reinsurance treaties	867,064	522,265
Other expenses	6,808	6,003
Taxes, licenses and fees	11,465	10,462
Amounts due for purchases of securities	112,030	201,747
Other liabilities	15,863	12,814
	6,605,155	4,599,925
Capital stock and surplus:		
Common stock at $100 par value per share. Authorized and issued 10,000 shares	1,000,000	1,000,000
Paid-in surplus	50,000	50,000
Unassigned surplus	1,182,982	873,316
	2,232,982	1,923,316
	$8,838,137	$6,523,241

See accompanying notes to financial statements.

National Fire & Marine Insurance Company

(Subsidiary of Berkshire Hathaway Inc.)

STATEMENT OF INCOME

Year ended December 31, 1970
with comparative figures for 1969

	1970	*1969*
Underwriting income:		
Net premiums written	$5,695,407	$3,951,771
Less increase in unearned premiums	517,248	243,272
Premiums earned	5,178,159	3,708,499
Losses and loss expenses incurred	3,395,897	2,426,897
	1,782,262	1,281,602
Underwriting expenses:		
Commissions and brokerage	1,736,827	1,205,362
Salaries and other compensation	76,188	54,577
Taxes, licenses and fees	12,397	18,492
Other underwriting expenses	32,990	26,563
	1,858,402	1,304,994
Net underwriting loss	76,140	23,392
Investment income:		
Interest on bonds	272,909	193,040
Dividends on stocks	103,556	52,412
	376,465	245,452
Investment expenses	8,110	7,253
	368,355	238,199
Income before Federal income tax credit and realized gains on investments	292,215	214,807
Federal income tax credit (note 5)	5,920	308
Income before realized gains on investments	298,135	215,115
Realized gains (losses) on investments	(90,093)	91,731
Less Federal income taxes on gains		25,226
	(90,093)	66,505
Net income	$ 208,042	$ 281,620

See accompanying notes to financial statements.

National Fire & Marine Insurance Company

(Subsidiary of Berkshire Hathaway Inc.)

STATEMENTS OF PAID-IN AND UNASSIGNED SURPLUS

Year ended December 31, 1970
with comparative figures for 1969

PAID-IN SURPLUS

	1970	1969
Beginning and end of year	$ 50,000	$ 50,000

UNASSIGNED SURPLUS

	1970	1969
Beginning of year	873,316	1,394,139
Net income	208,042	281,620
Increase (decrease) in net unrealized appreciation of investments	101,624	(387,176)
Decrease in excess of bodily injury liability and compensation statutory and voluntary reserves over case basis and loss expense reserves (Schedule "P" reserve)	—	84,733
Stock dividend	—	(500,000)
End of year	$1,182,982	$ 873,316

See accompanying notes to financial statements.

STATEMENT OF ADJUSTED INCOME

Year ended December 31, 1970
with comparative figures for 1969

	1970	1969
Net income as shown in the accompanying statement of income — statutory basis	$ 208,042	$ 281,620
Adjustments to net income:		
Net realized (gain) loss on investments (to segregate from adjusted net earnings)	90,093	(91,731)
Federal income taxes applicable to net realized gains	—	25,226
Increase in estimated equity in unearned premiums	158,528	102,539
Future income taxes applicable to increase in estimated equity in unearned premiums	(77,995)	(54,141)
	170,626	(18,107)
Net earnings, as adjusted (excluding investment gains)	$ 378,668	$ 263,513
Investment gains:		
Net realized gains (losses)	(90,093)	91,731
Less applicable income taxes	—	25,226
	(90,093)	66,505
Increase (decrease) in net unrealized gains	106,634	(388,609)
Less allowance for future income taxes	—	73,027
	106,634	(315,582)
Net investment gain (loss)	$ 16,541	$ (249,077)

See accompanying notes to financial statements.

National Fire & Marine Insurance Company

(Subsidiary of Berkshire Hathaway Inc.)

STATEMENT OF ADJUSTED STOCKHOLDER'S EQUITY

December 31, 1970

with comparative figures for 1969

	1970	1969
Capital shares and surplus as shown in the accompanying statement of assets and liabilities — statutory basis	$2,232,982	$1,923,316
Adjustments to capital shares and surplus:		
Equity in unearned premium reserve	631,298	472,770
Statement value of bonds over market value	—	(5,010)
	631,298	467,760
Adjusted equity before income taxes applicable to equity in unearned premiums and unrealized appreciation on investments	2,864,280	2,391,076
Less Federal income taxes applicable to estimated equity in unearned premiums and unrealized appreciation on investments	320,150	242,155
Adjusted stockholder's equity	$2,544,130	$2,148,921

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

December 31, 1970

(1) Basis of Presentation:

The accompanying financial statements have been prepared, except as to form, on the basis of the requirements for reporting in the annual statements filed with the insurance departments of the respective domiciliary states. The Federal income tax credit included in the accompanying financial statements was not included in the 1970 annual statement as filed because the amount had not been computed by the due date.

The financial statements have been prepared in conformity with insurance accounting principles prescribed or permitted under statutory authority which differ in some respects from generally accepted accounting principles followed by other business enterprises in determining financial position and results of operations. Pursuant to such practices (a) investment securities are carried in accordance with valuations established by the National Association of Insurance Commissioners, i.e. eligible bonds are carried at cost adjusted, where appropriate, for amortization of premium or discount, and other bonds and stocks are carried at market values with no provision for income taxes relative to unrealized appreciation in such investments; (b) and premium income is taken into earnings on a pro rata basis over the periods covered by the policies, whereas related acquisition and commission costs are charged when incurred. The effects of such differences is shown in the accompanying supplemental statements of adjusted stockholder's equity and adjusted net income.

(2) Bonds and Stocks:

Bonds and stocks are carried in accordance with valuations established by the National Association of Insurance Commissioners (see note 1).

The "admitted value" of bonds on deposit with regulatory authorities at December 31, 1970 was $162,131.

The change in each year in the valuation between investments at book value and investments valued as set forth in the annual statement is carried to surplus as unrealized gain or loss from investments.

(3) Unearned Premiums:

Unearned premiums are computed on the monthly pro rata basis and include provisions for refunds under retrospectively rated policies and are stated after deduction for reinsurance placed with other insurers in the amount of $426,283.

(4) Unpaid Losses and Loss Adjustment Expenses:

The reserve for unpaid losses and loss adjustment expenses is after deduction of amounts for reinsurance placed with other insurers in the amount of $547,161.

NOTES TO FINANCIAL STATEMENTS, *Continued*

(5) Federal Income Taxes:

The Company intends to file a consolidated Federal income tax return with its parent, Berkshire Hathaway Inc., for the year ended December 31, 1970. Federal income tax recoverable included in the financial statements is computed on the portion of this year's tax loss not used in the consolidated return and therefore available to carryback to prior years' returns.

Federal income tax returns have been examined through 1966 by the Internal Revenue Service and adjustments have been proposed. The Company intends to file a protest and management believes that final determination will result in a refund due to the Company.

The Illinois National Bank & Trust Co. of Rockford

(Subsidiary of Berkshire Hathaway Inc.)

FINANCIAL STATEMENTS
1970

ACCOUNTANTS' CERTIFICATE

PEAT, MARWICK, MITCHELL & CO.
CERTIFIED PUBLIC ACCOUNTANTS
111 WEST MONROE STREET
CHICAGO, ILLINOIS 60603

The Board of Directors
The Illinois National Bank &
Trust Co. of Rockford
Rockford, Illinois:

We have examined the consolidated statement of condition of Illinois National Bank & Trust Co. of Rockford and subsidiaries as of December 31, 1970 and the related consolidated statements of income, changes in capital accounts, and source and application of funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, such financial statements present fairly the financial position of Illinois National Bank & Trust Co. of Rockford and subsidiaries at December 31, 1970 and the results of its operations and changes in capital accounts for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Also, in our opinion, the accompanying consolidated statement of source and application of funds for the year ended December 31, 1970 presents fairly the information shown therein.

Peat, Marwick, Mitchell & Co.

January 15, 1971

The Illinois National Bank & Trust Co. of Rockford

(Subsidiary of Berkshire Hathaway Inc.)

AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CONDITION

December 31, 1970

with comparative figures for 1969

ASSETS

	1970	*1969*
Cash and due from banks	$ 15,156,585	$ 19,917,661
Investment securities (note 2):		
United States Government obligations	15,128,838	11,227,704
Obligations of states and political subdivisions	36,626,896	36,005,053
Other securities	210,000	210,000
Loans (note 3)	50,840,852	47,962,992
Bank premises and equipment, at cost less accumulated depreciation (note 4)	1,624,221	1,825,164
Accrued interest receivable and other assets	1,738,877	1,040,477
	$121,326,269	$118,189,051

LIABILITIES AND CAPITAL ACCOUNTS

	1970	*1969*
Demand deposits	52,478,179	58,237,471
Time deposits	49,095,130	41,317,347
Total deposits	101,573,309	99,554,818
Accrued taxes and other expenses	679,122	638,453
Total liabilities	102,252,431	100,193,271
Reserve for loan losses (note 5)	860,445	800,271
Capital accounts:		
Common stock, $20 par value.		
Authorized and issued 100,000 shares	2,000,000	2,000,000
Surplus	5,000,000	5,000,000
Undivided profits	10,137,393	9,119,509
Reserve for contingencies	1,001,000	1,001,000
Reserve for asset re-evaluation	75,000	75,000
Total capital accounts	18,213,393	17,195,509
	$121,326,269	$118,189,051

See accompanying notes to consolidated financial statements.

The Illinois National Bank & Trust Co. of Rockford

(Subsidiary of Berkshire Hathaway Inc.)
AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME

Year ended December 31, 1970
with comparative figures for 1969

	1970	*1969*
Operating income:		
Interest and fees on loans	$4,079,889	$3,820,358
Income on federal funds sold	316,798	392,335
Interest and dividends on:		
United States Government obligations	580,266	1,003,301
Obligations of states and political subdivisions	1,718,516	1,154,524
Trust department	280,038	342,976
Service charges on deposit accounts	151,551	219,891
Other	403,999	247,796
Total operating income	7,531,057	7,181,181
Operating expenses:		
Salaries	1,298,380	1,159,126
Pensions, profit sharing, and other employee benefits	151,391	113,551
Interest on deposits	2,028,709	1,694,877
Interest on federal funds purchased	3,573	12,538
Net occupancy expense of bank premises	358,468	301,557
Equipment rentals, depreciation, and maintenance	271,978	260,087
Provision for loan losses (note 5)	51,790	61,600
Other	661,286	558,132
Total operating expenses	4,825,575	4,161,468
Income before income taxes and securities gains or (losses) and extraordinary item	2,705,482	3,019,713
Applicable income taxes:		
Current	454,407	1,060,974
Deferred	29,599	(21,884)
Total applicable income taxes	484,006	1,039,090
Income before securities gains or (losses) and extraordinary item	2,221,476	1,980,623
Securities gains or (losses)	367,296	(788,879)
Applicable income taxes	(178,592)	416,528
Securities gains or (losses) — net of applicable income taxes	188,704	(372,351)
Income before extraordinary item	2,410,180	1,608,272
Extraordinary item — tax benefit received from parent (note 7)	633,000	—
Net income	$3,043,180	$1,608,272
Income per share (based on 100,000 shares during 1970 and 1969):		
Income before securities gains or (losses) and extraordinary item	$22.21	$19.81
Net income	30.93	16.08

See accompanying notes to consolidated financial statements.

The Illinois National Bank & Trust Co. of Rockford

(Subsidiary of Berkshire Hathaway Inc.)

AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN CAPITAL ACCOUNTS

Two years ended December 31, 1970

Balances January 1, 1969		
Common stock		$ 2,000,000
Surplus		5,000,000
Undivided profits		8,764,531
Reserve for contingencies		1,001,000
Reserve for asset re-evaluation		75,000
Total capital January 1, 1969		16,840,531
Changes in undivided profits in 1969:		
Net income		1,608,272
		18,448,803
Cash dividends ($11.75 per share)		(1,175,000)
Provision to reserve for loan losses from undivided profits net of tax (note 5)		(78,294)
Total capital December 31, 1969		17,195,509
Changes in undivided profits in 1970:		
Net income		3,043,180
		20,238,689
Cash dividends ($20.00 per share)		(2,000,000)
Provision to reserve for loan losses from undivided profits net of tax (note 5)		(25,296)
Balance December 31, 1970		$18,213,393
Balance December 31, 1970:		
Common stock	$ 2,000,000	
Surplus	5,000,000	
Undivided profits	10,137,393	
Reserve for contingencies	1,001,000	
Reserve for asset re-evaluation	75,000	
Total capital December 31, 1970	$18,213,393	

See accompanying notes to consolidated financial statements.

The Illinois National Bank & Trust Co. of Rockford

(Subsidiary of Berkshire Hathaway Inc.)

AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

Year ended December 31, 1970

with comparative figures for 1969

	1970	*1969*
Funds provided:		
Net income	$ 3,043,180	$ 1,608,272
Increase in deposit accounts	2,018,491	469,378
Proceeds from sale of banking premises, net of gains	125,499	—
Depreciation	232,610	189,728
Additions to reserve for loan losses exclusive of $25,296 (1969, $78,294) charged to undivided profits	110,840	207,080
Decrease in cash and due from banks	4,761,076	3,326,499
Other, net	—	—
Total funds provided	$10,291,696	$ 5,800,957
Funds used:		
Dividends	2,000,000	1,175,000
Increase in investment securities	4,522,977	2,506,961
Increase in loans before charge-offs of $75,962 ($84,111 in 1969)	2,953,822	1,051,654
Purchase of banking premises	157,166	777,956
Other, net	657,731	289,386
Total funds used	$10,291,696	$ 5,800,957

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1970

(1) Basis of Presentation:

The consolidated financial statements include the accounts of the Bank and its wholly-owned subsidiaries, Brown Building Corporation and Illinois National Safe Deposit Company. Income is reported on the cash basis for tax purposes and applicable deferred taxes have been provided for in the consolidated financial statements (see note 7).

(2) Investment Securities:

Investment securities are stated at cost, adjusted for amortization of premium. The approximate market value of investments at December 31, 1970 and 1969 was $52,440,000 and $44,023,000, respectively.

Investment securities, at cost less premium amortization, of $9,126,786 and $8,069,083 at December 31, 1970 and 1969, respectively, were pledged to secure public deposits and for other purposes required by law.

(3) Loans:

Loans have been reduced by unearned discount and consumer credit loan payments. Unearned discount was $2,185,639 on December 31, 1970 and $2,206,028 on December 31, 1969. Consumer credit loan payments totaled $10,901,329 on December 31, 1970 and $11,031,809 on December 31, 1969.

(4) Bank Premises and Equipment:

Bank premises and equipment are recorded at cost less accumulated depreciation of $1,265,043 and $1,061,740 at December 31, 1970 and 1969, respectively. Depreciation charged to expense totaled $232,610 for 1970 and $189,728 for 1969. Depreciation is computed on the straight-line method for building and automobiles and on an accelerated method for improvements, equipment, and drive-in and parking facilities. Deferred taxes have been provided for depreciation taken on certain of these assets on an accelerated basis for tax purposes and straight-line basis on the books.

The Illinois National Bank & Trust Co. of Rockford

(Subsidiary of Berkshire Hathaway Inc.)

AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, *Continued*

(5) Reserve for Loan Losses:

Transactions in the reserve for loan losses for the year ended December 31, 1970 were as follows:

	1970	*1969*
Balance at beginning of year	$800,271	$599,009
Provision charged to:		
Operating expenses	51,790	61,600
Undivided profits	50,502	165,876
	902,563	826,485
Less loans charged off, net of recoveries of $33,844 in 1970 and $57,897 in 1969	42,118	26,214
Balance at end of year	$860,445	$800,271

The loan loss provision charged to operating expenses is based on a five-year moving average ratio of net charge-offs to total loans over the past five years, including the current year. Additional provisions provided under the Treasury Tax formula of the Internal Revenue Service are charged to undivided profits net of the tax effect.

(6) Pension and Profit Sharing Plan:

The Bank has a non-contributory pension plan and a profit sharing plan for all officers and employees with two full years of service. No pension contribution was required for 1970; the profit sharing expense was $111,496 for 1970. The total pension and profit sharing expense for 1969 was $97,138.

As of January 1, 1970 the book value of the pension trust assets exceeded the actuarial values of the vested benefits of the participants.

(7) Tax Benefits Received From Parent:

The federal income tax benefit is the result of the consolidated tax position of the Bank's parent, Berkshire Hathaway Inc. and certain other subsidiaries. In 1970 the consolidated net loss of the group resulted in a recovery of the Bank's entire current federal income tax liability.

Deferred federal income taxes resulting from the difference between the accrual basis of accounting for book purposes and the cash basis of accounting for tax purposes have been provided in the consolidated financial statements.

Berkshire Hathaway Inc.

DIRECTORS

*Warren E. Buffett, *Chairman*
*Kenneth V. Chace
*Malcolm G. Chace, Jr.
Daniel Cowin
John William Scott

*Member of Finance Committee

OFFICERS

Kenneth V. Chace, *President*
J. Verne McKenzie, *Vice President and Treasurer*
Ralph Rigby, *Vice President*
John William Scott, *Vice President*

GENERAL COUNSEL

Ropes & Gray, Boston, Massachusetts

AUDITORS

Peat, Marwick, Mitchell & Co.

TRANSFER AGENT and REGISTRAR

The First National Bank of Boston, Boston, Massachusetts

Berkshire Hathaway Inc.

Executive Offices — 97 Cove Street, New Bedford, Massachusetts 02744
Sales Offices — 261 Fifth Avenue, New York, New York 10016
137 East 36th Street, New York, New York 10016